



Australian Services Roundtable

Australia/China FTA Confidential Members-only Update

(This briefing reflects views expressed by Ministers and senior officials at the recent Australia/China Business Council briefing in Canberra attended and reported by the Australian Services Roundtable's Executive Director, Jane Drake-Brockman.)

The most recent trade data shows that China has now overtaken Japan as Australia's single largest merchandise trade partner and officials are confident that when the services data becomes available shortly, it will confirm that China has become Australia's largest overall trade partner. While resources and energy dominate Australia's exports to China, elaborately transformed manufactures and services are also increasingly important. China is of unquestioned importance to Australia as a trading partner.

New Zealand has completed its own FTA negotiations with China. The deal is expected to be announced publicly during the forthcoming visit of NZ Prime Minister Helen Clark to China. For the last several weeks, the process of legal scrubbing has been taking place, and there has been no public information released by other side as to what the deal contains.

Against that background, it is hoped that the forthcoming April visit to Beijing by Australian Prime Minister Kevin Rudd will be able to rekindle momentum in Australia's own troubled negotiations with China.

Since election to office in November 2007, the Australia Government has been silent on the issue of where to next on the Australia/China FTA, but the Minister for Trade Simon Crean has recently signalled privately that Australia will not be giving up on these negotiations, difficult though they have been. Mr Crean has indicated that he will visit China after Mr Rudd's visit specifically to work on the FTA. Mr Crean has stressed to business audiences privately that that he has a reputation of fighting for something that is worth fighting for and in the case of the Australia/China FTA, he is not about to give up.

Mr Crean has also signalled, privately, that Australia may have to agree to do the FTA "in stages", though no detail has been released on what exactly that might mean, other than Mr Crean has reassured business representatives that it does not mean giving up on Australia's commitment to comprehensiveness.

Mr Crean noted, in a private briefing to the Australia/China Business Council in Canberra in March that the issue of "food security" might enable Australia to find a way to add value to the agricultural component of the Agreement. He also mentioned the possibility of providing expertise in water management etc. Crean confirmed however that the biggest opportunities for Australia, lay in "Services and Capital flows" and in improvements in the regulatory environment "behind the border" including in the intellectual property regime. He specifically noted the importance

also of legal services. Mr Crean also specifically mentioned that Australia will have to find a way (especially if the Doha Round fails) to give China a deal on People Movement. He has hinted at the need to find a way to build in some flexibility into Australia's non-discriminatory visa programmes.

In separate similarly private briefings to the business community, Australia's Foreign Minister Stephen Smith has described the FTA negotiations with China as "painstakingly hard" but agreed that Australia "can't give up". Smith has commented to the effect that it is in Australia's national interest to "keep the shoulder to the wheel". (Interestingly Smith has also commented privately in discussion with business representatives that there are some in the new Government who would unwind the recognition of China as a market economy if they could!)

It is worth mentioning that the recent announcements by the Australian Treasurer, designed to make more transparent Australia's position with respect to inward investment by sovereign funds are obviously of major interest to the Chinese FTA negotiators. There is also an emerging view in Australian policy circles that there is, as a result of liberalisation taking place via FTA negotiations in Australia's foreign investment regime, a growing need for policy change in Australia to enable post establishment scrutiny of foreign investment flows.

Background

In the words of Ric Wells, Australia's Chief Negotiator with China, the FTA has in recent months, at China's request, been through a "lull", not as Ric Wells insists "a pause or a break". The "lull" was reportedly to accommodate changes in the Chinese regime with respect to the Commerce Minister and Vice Premier responsible for Trade.

In addressing the Australia/China Business Council in March in Canberra, Ric Wells described the process to date as a "marathon" in which "progress has been rather slow". He said this was "not surprising" – indeed he said it was both "predictable" and "predicted" largely because of asymmetrically different aspirations of what each side expected to achieve. Wells continues to explain that the Australian negotiators have some distance yet to go in thinking through what might be acceptable outcomes for Australia.

To recap quickly, the negotiations on tariffs which are at the heart of the FTA process, have been at a standstill for a year. The original Chinese offer was considered by Australia to be inadequate and Australia has refused to undertake line-by-line tariff negotiations until China submits an improved offer, which to date China has failed to do. In the meantime, however, China has concluded its negotiations with New Zealand and Australian officials are hopeful that this deal might form a basis for progress with Australia, recognising however, that Australia's negotiating interests are broader and more diverse than those of New Zealand, especially when it comes to Services and Investment.

Services and Investment, which are the areas of greatest business interest for Australia, have been the area of single greatest sensitivity for China which remains concerned to avoid any perception of imposition of policy positions from outside.

The two countries have not yet even been able to agree on basic aspects of the architecture of the proposed agreement – architectural issues have had to be “parked on the side” as Wells’ describes it, and negotiators have had to talk instead about the kinds of outcomes they are looking for. Australia has given China a long list of 181 barriers in the services sectors which Australia would like to see eased – China’s response has not been encouraging to date.

Agriculture has also been very hard. The Australian Government remains committed publicly to a deal that delivers real gains to Australian farmers.

In some other areas, the negotiators have made useful if slow progress, such as Rules of Origin, Customs and Government Procurement. And Australia has undertaken an extensive industry-oriented advocacy programme in China, which has largely now come to its end.

The next negotiating round is tentatively set for June 2008.

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Securing Australia’s Place in the Global Services Economy

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